



City of San Leandro

Meeting Date: May 18, 2015

Staff Report

File Number: 15-196 **Agenda Section:** CONSENT CALENDAR

Agenda Number: 8.I.

TO: City Council

FROM: Chris Zapata
City Manager

BY: Debbie Pollart
Public Works Director

FINANCE REVIEW: Not Applicable

TITLE: Staff Report for a Resolution Authorizing the City Manager to Execute the 12th Amendment to the Franchise Agreement Between the City of San Leandro and Alameda County Industries, Inc.

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council, in accordance with Section 13.6 of the Franchise Agreement between the City of San Leandro and Alameda County Industries, Inc. (ACI), authorize the City Manager to execute the 12th Amendment to the Franchise Agreement, subject to approval as to form by the City Attorney.

BACKGROUND

On January 20, 2015 the City Council approved Resolution 2015-010, the 11th Amendment to the Franchise Agreement between the City and ACI. The amendment clarified unresolved issues related to the City's Living Wage Ordinance and ensured that effective December 1, 2014, ACI would provide all workers at its Material Recovery Facility (MRF) with wages and benefits that comply with the Living Wage Ordinance. The 11th Amendment to the franchise agreement also provided for a \$1,109,706.74 advance from the City to ACI to be repaid in forty equal installments of \$31,441.00 and cost recovered with an associated 2.14% rate increase effective July 1, 2015.

The 10th Amendment to the franchise agreement provides for an annual rate adjustment using a Refuse Rate Index (RRI) rather than a Consumer Price Index for determining prior year cost increases. The adjustment of rates as determined by the RRI is 2.05%, effective July 1, 2015.

In anticipation of future labor costs at the MRF, ACI submitted a request for special rate review on October 1, 2014. At that time, workers at the MRF notified ACI of their intent to collectively bargain. A collective bargaining agreement would provide increased wages for MRF workers as well as medical benefits, retirement benefits, paid leave, and higher workers'

compensation. The agreement increases MRF employees' wages and benefits beyond the requirements of the City's Living Wage Ordinance.

ACI's analysis provides that the incremental increased cost of the wages and benefits at the MRF during the first year of the contract will be \$2.73 million. ACI requested the three largest users of the MRF (Alameda, Livermore, and San Leandro) to consider additional rate increases to manage the costs. Without the additional revenues, ACI has indicated that it will not meet bank covenants and may be forced to close the MRF as early as July 1, 2015. See **Attachment A - ACI Memo** for additional information about ACI's financial condition.

Analysis

ACI requests a special rate adjustment of 4.3% to manage the financial impact of labor costs at the MRF. Prior to the Living Wage issue, ACI contracted with a third-party staffing agency that hired and employed the sorters and other workers at the MRF. ACI agreed to hire the employees and pay the City mandated living wage effective December 1, 2014. Shortly thereafter, MRF workers voted to join the International Longshore and Warehouse Union (ILWU), Local 6 and began negotiating a collective bargaining agreement with ACI.

ACI employs approximately 60 sorters in two shifts, processing curbside recyclable material from Alameda, Livermore, San Leandro, and Mission Trails. While ACI and the ILWU continue to negotiate a collective bargaining agreement, they have tentatively agreed on the sorters gaining full benefits (i.e. health and welfare, pension, vacation, sick, etc.) and the following hourly rate schedule for future years:

Table 1: Hourly Rate and Benefit Schedule

	<u>Agency</u>	<u>Current</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>2018/2019</u>	<u>2019/2020</u>
Hourly Rate	\$9.00	\$14.57	\$15.68	\$16.86	\$18.12	\$19.48	\$20.94
Total Cost	\$13.91	\$17.83	\$25.60	\$27.88	\$30.71	\$33.57	\$36.72
Increase	-	\$3.92	\$7.77	\$2.28	\$2.83	\$2.86	\$3.15

Additional information about hourly wages and benefits for MRF workers for the next five years is in the attached Letter of Understanding (LOU) between the International Longshore and Warehouse Union, Local 6 and ACI (**Attachment C**). As proposed in the LOU, the special rate adjustment accounts for the change in cost from the previous staffing agency rates to the City's living wage rates and from the City's living wage rates to the proposed union rates for 2015-16. ACI and Local 6 have negotiated in good faith to delay benefits and smooth cost increases over the next five year period to reduce immediate rate impacts. ACI has indicated that future rate impacts associated with MRF worker unionization should be less than one percent (1%) per year for most years. The additional costs would not be included in the annual rate adjustment calculation, but added to the annual rate adjustment proposal.

Special Rate Request

ACI requests a 4.3% rate increase pursuant to Section 6.4 of the Franchise Agreement, Special Rate Review. The increase will be included in the total rate increase proposal of 8.49% effective August 1, 2015. The total rate increase also includes a 2.05% annual rate adjustment and a 2.14% increase related to the loan repayment, specified in the 11th Amendment to the Franchise Agreement. The rate increase will not take effect until August 1, 2015 to provide for the required 60-day notice to customers.

ACI requested similar rate increases, based on an allocation of tons processed at the MRF, from the cities of Alameda and Livermore. These rate increase requests are dependent upon all three cities' willingness to accept ACI's request and continued use of the MRF facility. If one or more of the cities does not participate, the cost structure and associated rate request could change substantially for the other participating cities.

The impact of the total rate request on residential and commercial rates is as follows:

Table 2: Monthly Solid Waste Rates

<u>Customer</u>	<u>Service Level</u>	<u>7/1/13</u>	<u>2/1/15</u>	<u>8.49% Increase</u>	<u>\$ Change</u>
Residential	20-gallon rate	\$20.24	\$21.06	\$22.85	\$1.79
Residential	32-gallon rate	\$25.22	\$26.23	\$28.46	\$2.23
Multifamily	1cy 1x per week	\$93.97	\$97.94	\$106.26	\$8.32
Commercial	1cy 1x per week	\$110.58	\$115.01	\$124.77	\$9.76
Commercial	3cy 1x per week	\$334.30	\$347.71	\$377.23	\$29.52

The City hired HF&H Consultants, LLC to provide a comprehensive and independent analysis of the special rate request proposal. HF&H confirms that the calculations provided by ACI are mathematically accurate and that the increases reflect the costs described in the LOU. The results of the analysis are presented in **Attachment B - HF&H Report**. HF&H provided similar analyses for the cities of Alameda and Livermore.

Rate Comparison

HF&H has provided a comparison of rates that can be used as a general guideline to evaluate San Leandro rates as they relate to other cities in Alameda County (**Attachment D - Rate Survey**). Although rates may vary for several reasons such as the residential versus commercial customer mix, services offered, processing/disposal costs, and geographic service area, San Leandro rates are about average for the county when the proposed rate increase is applied. Residential rates for a 30-35 gallon container range from \$18.10/month (Emeryville) to \$51.88/month (Piedmont), while ACI's proposed rate is \$28.46/ month. Commercial rates for a 1-yard bin serviced one time per week range from \$86.95/month (Fremont) to \$261.83/month (Castro Valley Sanitary District), while ACI's proposed rate is \$124.77/month.

Future Rate Impacts

The LOU between the International Longshore and Warehouse Union, Local 6 and Alameda County Industries, LLC (**Attachment C**) identifies salary and benefit costs for MRF workers for the next five years. The increased costs will have an impact on future rates coinciding with the annual rate adjustment process. As previously mentioned, ACI projects that future rate impacts associated with MRF worker unionization should be less than one percent (1%) per year for most years.

While the City has endeavored to keep rates as low as possible while periodically adding beneficial new services to customers, future rate impacts are highly dependent on ACI's overall financial health, the stability of markets for processed recyclable materials, and costs associated with county and state mandates for mandatory recycling and additional waste diversion. The special rate request is intended to assist ACI to come into compliance with bank covenants and to ensure the overall viability of the company for the term of the contract

(See Attachment A - ACI Memo). If the special rate increase is not approved, then the viability of the company is at risk. If ACI cannot continue as the City's waste hauler, the City will have to implement alternative measures, such as engaging in an emergency contract or putting the franchise out to bid; it is highly likely that any measure would cause significant cost increases.

Considerations

Staff concurs with the recommendations presented in the HF&H report **(Attachment B)**, including additional analysis to understand the impact of MRF costs on future rate adjustments. Per the recommendations, the City should:

- Develop the methodology of how the labor adjustment for FY15-16 will be adjusted in future years;
- Review the final terms of the ILWU collective bargaining agreement on the projections provided by ACI for FY15-16 and determine the financial impact, if any, to the City;
- Request ACI to provide a schedule showing the annual cost of operating the MRF in order to determine operational efficiency;
- Monitor ACI's financial ratios, especially for FY15-16, to see if the rate adjustments from the various agencies caused improvements as expected;
- Review the commodity revenues obtained by ACI annually to verify they continue to offset the processing costs for Mission Trails or any other new sources of tonnages processed at the MRF;
- Address the current provisions for the sharing of commodity revenues to eliminate the debt covenant element as prescribed in the 10th Amendment; and
- Review the rate adjustment established in the 11th Amendment to determine if the revenue generated is in line with the amount required according to the loan amortization schedule.

Previous Actions

On January 20, 2015 by Resolution No. 2015-010, the City Council approved 11th Amendment to Alameda County Industries (ACI), Inc.'s Franchise Agreement

Applicable General Plan Policies

- Action 27.01-A: Source Reduction and Recycling Programs
- Action 27.01-C: Commercial and Multi-Family Residential Programs
- Action 27.01-D: Food Waste Recycling

ATTACHMENTS

Attachments to Staff Report

- Attachment A - Memo from Alameda County Industries
- Attachment B - HF&H Consultants, LLC Report
- Attachment C - Letter of Understanding between ACI and the ILWU, Local 6
- Attachment D - Alameda County Rate Survey

Attachment to Resolution

- 12th Amendment to the Franchise Agreement for Solid Waste, Recyclables and Green Waste Services between the City of San Leandro and Alameda County Industries, Inc.

PREPARED BY: Jennifer Auletta, Deputy Public Works Director, Public Works Department

Alameda County Industries

Long Term Adjustments to Existing Franchise Agreements with the Cities of San Leandro and Alameda Related to “Living Wage” Special Rate Request

Executive Summary

As has been discussed with staff of the Cities of San Leandro and Alameda (the “Cities”), the passage of a “Living Wage” ordinance (the “San Leandro Ordinance”) and similar actions or intentions expressed by other municipal leaders in Alameda County, have resulted in an increase in the number of union employees which, not surprisingly, have also had a material adverse effect on the financial health of Alameda County Industries (“ACI” or, the “Company”). While an interim solution to the problem was reached with the City of San Leandro thru June 30, 2015, a permanent solution will be required..

As you are aware, pursuant to an agreement with the City of San Leandro, ACI significantly increased wages as of December 1, 2014 for employees at its Material Recovery Facility (“MRF”) in accordance with the San Leandro Ordinance. Per agreement with the city, San Leandro provided a cash loan to be paid back from future rate adjustments, and implemented a small rate adjustment already provided for in its franchise agreement, the combination of which will allow the Company to have sufficient resources to operate through mid-year without material consequences related to meeting its bank financial covenants given its greatly increased costs (although waivers by the bank of certain covenants will still be required). But those adjustments and the bank waivers were only temporary in nature.

The purpose of this memo and the accompanying material, therefore, is to propose the basis for a permanent solution which will allow the increased unionization of the Company’s workforce while at the same time, ultimately encouraging maximum efficiency and thereby keep the costs to the solid waste ratepayers as low as possible.

This memo and the accompanying material will provide details of the financial impact of the new wage and benefit scales, discuss estimated rate increases which would be required to allow the Company to continue to operate the MRF in accordance with living and prevailing wage requirements, and what the Company believes is the long term plan best suited to keeping rates as low as possible while increasing efficiencies and resulting diversion of recyclable material. This discussion will necessarily be based on certain financial ratios and covenants which the Company’s bank imposes on the Company to ensure its ability to repay debt. (Such covenants are standard for any banking relationship in this industry and others.)

The Financial Impact of “Living” or “Prevailing” Wage Requirements

Current operations at the Materials Recovery Facility serving Alameda and San Leandro require ACI to maintain two full shifts of employees as well as a limited third shift for ongoing maintenance. While ACI was paying a temp agency a burdened rate of \$13.91 an hour with the adoption of the living wage and transferring the workers to full time employees of ACI the fully burdened rate has increased to \$17.83 a 28 percent increase in costs. With the recent unionization of the workers and the requirement to provide benefits the union and the company have signed a Letter of Understanding which provides for a phase in of hourly rates, establishes health benefits as well as phased in pension benefits. The purpose of the LOU is to provide for lower initial costs to the rate paper while still meeting labors goal of a countywide prevailing wage by 2019. This will result in additional incremental costs increases for the next five years to support labor. These costs are estimated to have less than a one percent impact in future years.

Following in Figure 1 is a projection of the major components of a cash flow/income statement for ACI as well as a calculation of the most important of the two major financial covenants used by banks that

lend to our industry. This covenant is known as the “Fixed Charge Covenant” or “FCC” and is simply a measure of how much cash a company has at any given period as compared to its obligation to pay principal and interest on its loans due during that period. Obviously, a company with only a 1:1 ratio would be seen as a significant risk to the bank since the slightest upset would make such a company unable to pay its debts (and below that, such payment would be impossible). So, banks typically require that a company maintain cash positions at least 120% greater than all its “Fixed Charges”. The calculation is expressed as “EBITDA” (“Earnings Before Interest, Taxes, Depreciation & Amortization”) *less* distributions to owners (to enable them to pay subchapter S taxes) *divided by* principal and interest payments.

These numbers include the 4.01% rate increase already granted by the City of San Leandro as well as the new labor costs as of December 1, 2014.

Figure 1

ALAMEDA COUNTY INDUSTRIES						
TWO LABOR SHIFTS WITHOUT REVENUE RATE INCREASES						
FINANCIAL STATEMENT COVENANTS						
YEARS ENDING JUNE 30, 2015 THROUGH JUNE 30, 2020						
	2015	2016	2017	2018	2019	2020
Net Income	\$ (277,293)	\$ (1,853,881)	\$ (1,765,802)	\$ (1,640,630)	\$ (1,700,357)	\$ (1,239,795)
Depreciation	2,980,158	2,887,141	2,726,049	2,562,513	2,487,614	1,876,944
Amortization	51,955	42,988	42,988	42,583	40,363	29,110
Interest expense	465,326	432,421	339,220	245,973	182,855	142,744
Income taxes	29,065	48,336	53,912	58,078	60,555	72,017
EBITDA	\$ 3,249,211	\$ 1,557,005	\$ 1,396,368	\$ 1,268,517	\$ 1,071,030	\$ 881,020
Principal payments	2,384,637	3,585,463	3,580,020	2,385,982	1,543,989	1,470,000
City of San Leandro principal payments	-	73,977	100,811	103,355	105,963	108,637
Interest expense	465,326	432,421	339,220	245,973	182,855	142,744
Distributions	-	-	-	-	-	-
FIXED CHARGES	2,849,963	4,091,861	4,020,051	2,735,311	1,832,807	1,721,381
FIXED CHARGE COVERAGE RATIO	1.14	0.38	0.35	0.46	0.58	0.51

As you can see, the Company is projected to be barely able to pay its debt service this year and will be in violation of the Fixed Charge Covenant Ratio. However the company, will not be able to make future payments unless further rate adjustments are made and, in fact, the Company would not be even close to being able to pay its bills. The bank would quickly declare a default and it is hard to foresee any other result than liquidation. There is a sense of urgency here in that the bank credit facility expires in June of this year. With that being said the company will need to be able to show the bank financial projections sufficient to meet fixed charge coverage ratios. This will require commitments from the cities of adequate rate increases as well as restructuring of debt with the bank

Summary and Solution

Alameda County Industries appreciates the support of the City of San Leandro in implementing the interim solution described and hopes it will have the support of San Leandro in a permanent solution which will allow the payment to our MRF employees of the new wage scales as agreed to in the L.O.U. with Local 6 while keeping the Company in compliance with its bank covenants. Alameda County Industries is requesting that the city of San Leandro adopt ***an initial rate increase of 4.3 percent specific to the increased labor costs.*** This coupled with future incremental increases as outlined above should provide sufficient revenue now and in the future for the company to re-negotiate its debt and continue providing service to San Leandro as well as pay future wage increases. The Waste and Recycling

Industry is a capital intensive business which requires capital for Trucks, Containers, heavy machinery and processing equipment and it is critical that companies have the ability to borrow and access to capital.

In the long run, we believe the benefits to the Company and the cities it serves will be significant in allowing the cities access to--and through rate regulation--control over a MRF facility whose employees can aspire to a well-paid career. Given the costs of similar facilities located in the Bay Area, we believe this can be achieved while still keeping rates competitive and we look forward to working with you in accomplishing those goals.



201 N. Civic Drive, Suite 230
Walnut Creek, California 94596
Telephone: 925/977-6950
Fax: 925/977-6955
www.hfh-consultants.com

Robert D. Hilton, CMC
John W. Farnkopf, PE
Laith B. Ezzet, CMC
Richard J. Simonson, CMC
Marva M. Sheehan, CPA
Robert C. Hilton, CMC

April 29, 2015

Ms. Jennifer Auletta
Deputy Public Works Director
City of San Leandro
14200 Chapman Road
San Leandro, California 94578

Via Email: jauletta@sanleandro.org

Subject: Special Rate Review for Alameda County Industries

Dear Ms. Auletta,

HF&H Consultants, LLC (HF&H) is pleased to provide our findings to the City of San Leandro from our review the special rate adjustment request resulting from Alameda County Industries' (ACI's) Materials Recovery Facility (MRF) labor issues related to union activities and the City of San Leandro's living wage ordinance. This report is organized into three sections:

1. Background
2. Scope of Work and Limitations
3. Findings and Recommendations

I. BACKGROUND

In February of 2000, the City of San Leandro and ACI entered into a Franchise Agreement (Agreement) to provide solid waste, recyclables, and green waste collection services to businesses and residents. The term of the Agreement ends January 31, 2025.

ACI manages collection services for the cities of Alameda and San Leandro and operates a Material Recover Facility (MRF), located in San Leandro, under a sister company, Alameda County Industries, LLC. In July of 2014, ACI LLC was sued by attorneys representing a class of MRF workers for possible violations of the City's Living Wage Ordinance (effective September 2007). The lawsuit was subsequently settled by the parties and the International Longshore and Warehouse Union (ILWU), Local 6 and ACI began discussions for a collective bargaining agreement. In December of 2014, ACI agreed to hire the MRF workers from the third-party staffing agency, who employed them, and started paying the City's hourly living wage rate. ACI and ILWU are currently negotiating a collective bargaining agreement for the MRF workers.

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The City approved an 11th Amendment to the Agreement which included a 4.01% annual rate adjustment, effective February 1, 2015, and an advance was made of \$1,109,706.74 to ACI from General Fund Reserves with simple interest at 2.5% per annum to be repaid in quarterly installments. The advance will be repaid through the term of the contract with a 2.14% rate increase effective July 1, 2015.

ACI submitted its request for annual rate adjustment for 2015 on March 20, 2015 in accordance with Section 6.2 of the Agreement. Additionally, ACI is requesting a special adjustment (Section 6.4 of the Agreement) related to a significant change in MRF labor costs.

The City of San Leandro engaged HF&H to review ACI's Refuse Rate Index (RRI) request and special rate request for accuracy and reasonableness.

II. SCOPE OF WORK AND LIMITATIONS

Scope of Work

Task 1 – Project Initiation

HF&H met with the City of San Leandro to gain a full understanding of ACI's franchise collection rates to be effective July 1, 2015 to address the following items:

Task 2 – Review the Annual Refuse Rate Index (RRI) Adjustment

HF&H performed the following steps:

- Reviewed the 2015 RRI rate adjustment request submitted by ACI for logical consistency and mathematical accuracy.
- Requested and reviewed several of the prior year's RRI rate adjustments and compare the cost categories for each major expense component for reasonableness and consistency.
- Additionally, we will request supporting documentation from ACI for tonnage data and commodity revenues in order to evaluate the revenue sharing and other allocations between the various ACI entities serving other agencies (Livermore and Alameda) Since ACI had not met its debt covenants there was no revenue share to consider for the 2015 rate adjustment.

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Task 3 –Review of Special Rate Adjustment Request-MRF employee living wage adjustment and MRF refurbishment.

HF&H performed the following steps:

- Reviewed ACI's projected expenses to comply with the SLLWO and to provide full Union pay and benefits to employees for accuracy and reasonableness;
- Requested and reviewed supporting documentation, such as: tonnage reports; labor information, etc.;
- Reviewed allocations between the Cities of San Leandro, Alameda and Livermore for reasonableness; and,
- We determined what rate adjustment is a reasonable for FY 2015/2016 and project the impact on rate adjustments in subsequent contract years anticipating that MRF wages will increase over the next few years.

Task 4 –Provide an Analysis of ACI's Financial Health.

HF&H performed the following steps:

- We obtained ACI's Audited Financial Statements for the previous three years and prepared an analysis of several financial ratios.
- We compared ACI's ratios to those of other companies in the industry of similar size.

Limitations

Our review was substantially different in scope than an examination in accordance with Generally Accepted Auditing Standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Our conclusions are based in part on the review of ACI's projections of its financial data related to the effect of the unionization of the workers at ACI. The final terms of the collective bargaining agreement have not been finalized. There is a potential for loss of tonnage from other cities, which would affect the allocation of costs. Also unknown is the amount to which other cities may or may not agree to provide or contribute financial support to offset ACI's increased costs. The financial impact from the final terms of the union agreement and the final decisions of other cities currently bringing tonnage to ACI may differ from projections and the difference may be significant.

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III. FINDINGS AND RECOMMENDATIONS

ACI's Rate Adjustment Request

ACI submitted its rate adjustment application on March 20, 2015 for rates effective July 1, 2015. The application included a RRI adjustment of 2.05% in accordance with the Agreement between the City of San Leandro and ACI. HF&H reviewed ACI's 2015 RRI calculation and determined the adjustment of 2.05% was in compliance with the Agreement. ACI also requested additional compensation due to the following: 1) an adjustment of 2.14% per Amendment 11; 2) no revenue share adjustment for 2015; and, 3) projected increased labor costs at ACI based on two shifts at union wage and benefit rates. The adjustments as submitted by ACI are shown in **Table 1** below:

**Table 1:
 ACI Rate Adjustment Requests**

	RRI 2015 with Amendment 11 Adjustment	Additional ACI Costs <u>w</u> Profit and City Fees (Two Shifts)	Additional ACI Costs <u>wo</u> Profit and City Fees (Two Shifts)
Total Calculated Incremental Labor Costs at ACI's MRF		\$578,996	\$578,996
ACI Operating Ratio .90		64,333	0
Subtotal ACI Special Request before City Fees		643,329	578,996
City Franchise Fees		71,481	0
Total Special Request for Recyclable Materials Processing		\$714,810	\$578,996
Estimated Revenue Year ending June 30 ,2015		\$13,461,809	\$13,461,809
Special Requested Adjustment		5.31%	4.30%
ACI's Refuse Rate Index Request	2.05%	2.05%	2.05%
Recycling Revenue Share - (no adjustment for 2015)	0.00%	0.00%	0.00%
Amendment 11 Adjustment	2.14%	2.14%	2.14%
Rate Percentage Change	4.19%	9.50%	8.49%

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HF&H Review of ACI's Special Rate Adjustment Request

HF&H reviewed the components of, and the supporting documentation for, the Special Rate Adjustment requested by ACI for mathematical accuracy and logical consistency. ACI assumed: two shifts of the employees; supervisor employed by ACI; and, processing employees receiving union wages and benefits. **Table 2** is ACI's calculation of the additional processing costs at its MRF. **Table 3 & 4** show San Leandro's allocated portion of the additional processing costs. **Table 3** includes a calculation for profit for ACI as well as a calculation of City Franchise fees. **Table 4** shows only the increased labor costs attributable to San Leandro and excludes ACI's profit and the City Franchise fees.

Table 2:
ACI's Calculation of MRF Additional Processing Costs

Cost Category	Shift 1	Shift 2	Maint. and Supervisor	Total Incremental Cost 2 Shifts
Regular Wages	\$1,209,122	\$1,047,229	\$73,207	\$2,329,558
Overtime Wages	175,444	151,953	10,622	338,019
Holiday Wages worked	58,481	50,651	3,541	112,673
Holiday Wages Not worked	14,620	12,663	885	28,168
Vacation Wages	28,731	24,885	1,740	55,356
Sick Leave Wages	29,241	25,326	1,770	56,337
Total Wages	\$1,515,640	\$1,312,706	\$91,765	\$2,920,111
Workers Compensation Insurance Premiums	\$216,630	\$187,624	\$13,116	\$417,370
Health & Welfare	556,817	477,272	31,818	1,065,907
Pension/ Retirement Benefits	-	-	-	-
Total Benefits	\$773,447	\$664,896	\$44,934	\$1,483,277
Fica	\$115,946	\$100,422	\$7,020	\$223,388
Fui	1,617	1,386	92	3,095
Sui	13,475	11,550	770	25,795
Total Payroll Taxes	\$131,038	\$113,358	\$7,882	\$252,279
Additional Supervisor			\$136,914	\$136,914
Avoided Staffing Agency Costs*	-\$1,072,343	-\$927,657	-\$64,505	-\$2,064,505
Grand Total Incremental Labor	\$1,347,782	\$1,163,304	\$216,990	\$2,728,076

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Table 3:
ACI's Calculation of Additional Processing Costs Attributable to the City of San Leandro

Total ACI Cost 2 Shifts		\$4,792,581	
Avoided Staffing Agency Costs		-\$2,064,505	
Total Incremental Labor Costs		\$2,728,076	A
San Leandro's Allocation of Incremental Labor Costs (based upon tons processed)	21.2%	\$578,996	A X 21.2% = B
ACI Operating Ratio .90	0.90	\$64,333	B/.90 - B = C
Total San Leandro's Incremental Cost		\$643,329	B+C = D
City Franchise Fee	10.0%	\$71,481	F X 10% = E
Total Adjusted Revenue Requirement		\$714,810	D + E = F
Projected Revenue at Current Rates		\$13,461,809	G
Special Rate Adjustment		5.31%	F/G = % rate increase
Rate Adjustment -RRI		2.05%	
Amendment 11		2.14%	
Combined Rate Adjustment		9.50%	

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**Table 4:
 ACI's Calculation of Additional Processing Costs Attributable to the City of San Leandro
 (Without Profit and City Franchise Fees)**

Total ACI Cost 2 Shifts		\$4,792,581	
Avoided Staffing Agency Costs		-\$2,064,505	
Total Incremental Labor Costs		\$2,728,076	A
San Leandro's Allocation of Incremental Labor Costs (based upon tons processed)	21.2%	\$578,996	A X 21.2% = B
ACI Operating Ratio .90		\$0	B/.90 - B = C
Total San Leandro's Incremental Cost		\$578,996	B+C = D
City Franchise Fee		\$0	E
Total Adjusted Revenue Requirement		\$578,996	D + E = F
Projected Revenue at Current Rates		\$13,461,809	G
Special Rate Adjustment		4.30%	F/G = % rate increase
Rate Adjustment -RRI		2.05%	
Amendment 11		2.14%	
Combined Rate Adjustment		8.49%	

Further Labor Negotiations

The ILWU and ACI management have been negotiating a collective bargaining agreement. On April 2, 2015 the ILWU and ACI signed a Letter of Understanding (LOU) regarding the ACI MRF workers negotiations for a collective bargaining agreement. As a result of the terms outlined in the LOU: smoothing of wage rates over a five year period; employer contribution to pension plan delayed to year three; and a reduction to the shift differential; ACI was able to present a reduced request to the City of San Leandro. ACI's calculation of incremental costs is \$578,996. **Table 5** shows the wage rate and cost of benefits escalation over the next five years. The final agreement has not been signed therefore there may be other financial impacts upon ACI that are not known at this time.

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**Table 5:
 Sorter Hourly Rate and Benefits**

	Staffing Agency	Current	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Hourly Rate	\$9.00	\$14.57	\$15.68	\$16.86	\$18.12	\$19.48	\$20.94
Benefits, Taxes, Insurance	-	\$3.26	\$9.92	\$11.02	\$12.59	\$14.09	\$15.78
Burdened Rate	\$13.91	\$17.83	\$25.60	\$27.88	\$30.71	\$33.57	\$36.72

Allocations of Costs Based on Tons Processed

We noted ACI allocated the additional labor costs only to the three jurisdictions that have franchise agreements with either ACI or its related affiliated company Livermore Sanitation Inc. The three jurisdictions are San Leandro, Alameda, and Livermore. Upon review of the total tons processed, it was noted another related company (Mission Trails) brought material to the ACI MRF for processing. **Table 6** shows the tons processed at ACI for the 12 months ended June 30, 2014:

**Table 6:
 Summary of Tons Processed at the ACI MRF**

Jurisdiction/Company	Tons Processed FY 2013-2014	% of All Tons Processed	% of San Leandro, Alameda and Livermore Tons Processed
City of San Leandro	7,285	17.5%	21.2%
City of Alameda	10,683	25.6%	31.1%
City of Livermore	16,359	39.3%	47.7%
Mission Trails	7,329	17.6%	0.0%
Total	41,656	100.0%	100.0%

We understand ACI does not charge Mission Trails a processing fee nor does Mission Trails share in the commodity revenues. ACI has indicated that commodity revenues from the Mission Trails tonnage offsets the cost to process their tonnage.

Financial Outlook for ACI

HF&H reviewed the Audited Financial Statements for the years ending June 30th 2012, 2013 and 2014 provided by ACI to calculate the following key financial ratios: current ratio (current assets relative to current liabilities), quick ratio (cash and accounts receivable relative to current liabilities), working capital (current assets less current liabilities), debt to equity, current debt to worth, return on assets and profit margin.

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For three of the seven financial ratios examined, ACI's ratios produced a less than favorable measurement than the industry average. The three ratios (indicated in red) are the ratios that best indicate the company's ability, or in ACI's case, the potential inability to meet its day-to-day obligations. Below is a description of each of the ratios and how to interpret them.

- **Current Ratio** – the rough measure of a company's ability to pay its current obligations. The higher the ratio the better.
- **Quick Ratio** – a more conservative measure of a company's ability to pay its current obligations measured by its most liquid assets. The higher the ratio the better.
- **Working Capital** - measure of cash and liquid assets available to fund a company's day-to-day operations. A positive working capital balance is ideal; however, the solid waste industry standard is indicates a 10% negative balance is "normal".
- **Debt to Equity Ratio** - measures the relationship between capital contributed by creditors and that contributed by owners. The lower the positive ratio, the greater the financial stability and borrowing flexibility.
- **Current Debt to Worth** – expresses the relationship between capital contributed by creditors and current capital contributed by owners. The higher the ratio the greater the risk being assumed by creditors. A lower ratio generally indicates greater long – term financial safety.
- **Return on Assets** – measures effectiveness of a company's management in employing the resources available to it.
- **Profit Margin** – measures a company's return on total sales

Table 7 summarizes results of the financial ratio benchmark comparisons performed.

Table 7:
Financial Ratio Analysis Summary

Type of Ratios	Measurement	ACI	ACI	ACI	25MM & Over
		06/30/2012	06/30/2013	06/30/2014	Industry
Liquidity	Current Ratio	0.57	0.64	0.53	0.90
	Quick Ratio	0.56	0.62	0.52	0.70
	Working Capital	\$ (2,506,297)	\$ (2,063,969)	\$ (6,050,205)	
Capital Structure	Debt to Equity Ratio	0.89	1.86	1.89	3.50
	Current Debt to Worth	0.25	0.22	0.77	0.83
Operating	Return on Assets	8.25%	7.17%	2.89%	7.30%
	Profit Margin	5.07%	6.33%	2.53%	4.50%
		# of More Favorable	9		
		# of Less Favorable	11		
		# of Even	1		

Note: MM = \$ million and red highlighted numbers indicate less than favorable ratios when compared to Industry

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The three liquidity ratios indicate ACI ability to meet current obligations is consistently below the industry average and in FY2014 there was a significant decline in working capital. The ratios support ACI's assertion it is in need of the special rate adjustments; however, based on the three-year history it appears the company has consistently operated with minimal working capital. This practice leaves the company vulnerable if unexpected negative financial events occur.

Summary of City of San Leandro's Range of Options

Although each of the above items may be analyzed independently or in various combinations, it is the opinion of HF&H that the City of San Leandro has a range of options as identified below:

- The City of San Leandro may elect to deny ACI's special rate adjustment request and approve only the RRI based increase per Sections 6.2 and 6.2.B.i of the Agreement.
- The City of San Leandro may consider ACI's special rate adjustment requested amount per the terms stated in the LOU with ACI dated April 2, 2015.
- The City of San Leandro may request the removal of the profit for ACI and /or forego the applicable City of San Leandro franchise fees.

The following two tables show the different rate impacts to a residential ratepayer based on the City of San Leandro allowing ACI to include the additional labor costs at its MRF. The projections for future years were based on the labor rate projections stated in the LOU between the union and ACI. The projected impact is solely related to the labor costs and does not include other adjustments that may occur in those future years.

Table 8:

**Projected Future Rate Impacts to Single Family Residential Service Due to Special Rate Review
 (With Profit and City Franchise Fees)**

32 Gallon Residential Service	2015/16	2016/17	2017/18	2018/19	2019/20
Rate Increase (with profit & fees)	5.31%	0.75%	0.77%	1.07%	0.88%
Approx. Monthly Dollar Impact	\$1.39	\$0.22	\$0.23	\$0.33	\$0.28
Approx. Annual Dollar Impact	\$16.71	\$2.58	\$2.73	\$3.95	\$3.37

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**Table 9:
 Projected Future Rate Impacts to Single Family Residential Service Due to Special Rate Review
 (Without Profit and City Franchise Fees)**

32 Gallon Residential Service	2015/16	2016/17	2017/18	2018/19	2019/20
Rate Increase (without profit & fees)	4.30%	0.61%	0.63%	0.88%	0.73%
Approx. Monthly Dollar Impact	\$1.13	\$0.17	\$0.18	\$0.27	\$0.23
Approx. Annual Dollar Impact	\$13.54	\$2.09	\$2.21	\$3.20	\$2.73

Survey of Comparable Rates

Attachment 1 shows the results of HF&H's survey of solid waste rates for jurisdictions located throughout Alameda County as of March 4, 2015). We have applied the recommended rate increases specific to each service level for purposes of comparing ACI's rates to other jurisdictions. It should be noted that the comparable jurisdictions will be considering rate increases either July 1, 2015 or January 1, 2016, but they are unknown at this time.

Residential rates for a 30-35 gallon container range from \$18.10/month (Emeryville) to \$51.88/month (Piedmont), while ACI's proposed rate ranges from \$27.33/month to \$28.72/ month. Commercial rates for a 1-yard bin serviced one time per week range from \$86.95/month (Fremont) to \$261.83/month (Castro Valley Sanitary District), while ACI's proposed rate ranges from \$119.83/month to \$125.94/month.

We caution the City that this survey is presented for information only. They should not draw conclusions from this information, because rate comparisons are intrinsically difficult and often misleading. This difficulty results from differences in items such as:

- Services provided by ACI that may not be provided (or only partially provided) to other jurisdictions;
- The terrain in which the service is performed;
- Disposal costs;
- Rate structures (as illustrated in the rate survey where eleven jurisdictions have higher 32-gallon rates than the highest San Leandro's proposed 32-gallon rate; however, only eight jurisdictions have a higher rate for commercial 1 cubic yard bin serviced once per week); and,
- Governmental fees (e.g., franchise fees, vehicle impact fees, etc.)

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Recommendations

Based on the work we performed and the limitations stated in Section II of this report, we recommend the following:

- The City and ACI should develop an understanding of how the MRF costs are going impact the City in the future and document the understanding in an amendment to the franchise agreement. We suggest the following items be addressed:
 - MRF Costs
 - Should the special labor adjustment be converted to a processing cost per ton so that it fluctuates based on tonnage processed versus a flat amount?
 - Should a threshold be established on costs that can be presented to the City in a special rate adjustment request?
 - Develop the methodology of how the labor adjustment for FY15-16 will be adjusted in future years.
- The City should review the final terms and request ACI to provide the financial impact of the ILWU collective bargaining agreement on the projections provided by ACI for FY2015-2016 and determine the financial impact, if any, to the City.
- On an annual basis, the City should request ACI to provide a schedule showing the cost of operating the MRF, net of intercompany transactions and hauling operations for other entities based on the audited financial statements. In order to determine the operational efficiency of the MRF the following metrics are examples of areas that should be reviewed for reasonableness based on prior year activities and industry standards:
 - The processing cost per ton
 - Net processing cost per ton (after including commodity revenue)
 - Tons processed per hour
 - Tons processed per employee
 - General and administrative costs per processed ton
- The City should monitor ACI's financial ratios, especially for FY2015-2016 to see if the rate adjustments from the various agencies caused improvements as expected. HF&H will provide the City a template.
- The City should be aware of the decisions of other cities currently bringing tonnage to ACI and the extent to which they may or may not agree to provide or contribute financial support to offset ACI's increased costs.
- The commodity revenues obtained by ACI should be reviewed annually to verify they continue to offset the processing costs for Mission Trails or any other new sources of tonnages processed by ACI.
- The current provisions for the sharing of commodity revenues should be addressed with the company to eliminate the debt covenant element. The City does not have control over the

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financial decisions made by ACI affecting its debt covenants as well as the other agencies delivering material to the MRF do not have such a provision.

- The City should also review the rate adjustment established in Amendment 11 to determine if the revenue generated is in line with the amount required according to the loan amortization schedule. On an annual basis, the City will need to revisit the adjustment to verify the proper amount is included in the rates.

* * * *

HF&H appreciates this opportunity to work with the City of San Leandro. If you have any questions about this report or would like to discuss it in more detail, please don't hesitate to contact me at (925) 977-6961 or msheehan@hfh-consultants.com.

Sincerely,

HF&H CONSULTANTS, LLC

Marva M. Sheehan, CPA
Vice President

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ATTACHMENT 1

**ALAMEDA COUNTY RATE SURVEY
 (RATES IN EFFECT ON MARCH 4, 2015)**

Jurisdiction	Residential Single - Family				Commercial				
	20-Gal.	30-35 Gal.	60-64 Gal.	90-96 Gal.	1 YD Bin 1X/Week	1YD Bin 3X/Week	3 YD Bin 1X/Week	3 YD Bin 3X/Week	
City of San Leandro - Current	\$21.06	\$26.23	\$43.66	\$61.07	\$115.01	\$347.71	\$347.71	\$1,043.12	
City of San Leandro - RRI & Amendment 11	4.19%	\$21.94	\$27.33	\$45.49	\$63.63	\$119.83	\$362.28	\$362.28	\$1,086.83
City of San Leandro -with Special Rate Request	9.50%	\$23.06	\$28.72	\$47.81	\$66.87	\$125.94	\$380.74	\$380.74	\$1,142.22
City of San Leandro -with Special Rate Request (with out Profit & City fees)	8.49%	\$22.84	\$28.46	\$47.37	\$66.26	\$124.78	\$377.23	\$377.23	\$1,131.69
City of Alameda	\$28.46	\$35.92	\$59.02	\$82.42	\$136.82	\$418.66	\$410.47	\$1,256.00	
City of Albany	\$35.92	\$40.23	\$69.53	\$98.82	\$160.30	\$480.90	\$480.90	\$1,442.70	
City of Berkeley	\$23.10	\$36.93	\$73.83	\$110.71	\$147.00	\$414.21	\$406.85	\$1,208.45	
City of Dublin	N/A	\$21.10	\$38.75	\$56.40	\$102.35	\$357.99	\$307.05	\$972.09	
City of Emeryville	\$10.93	\$18.10	\$36.19	\$54.29	\$107.78	\$323.34	\$323.34	\$970.02	
City of Fremont	\$29.89	\$30.51	\$33.39	\$48.93	\$86.95	\$250.10	\$195.45	\$575.58	
City of Hayward	\$20.40	\$29.81	\$53.16	\$76.48	\$116.61	\$316.24	\$300.45	\$829.23	
City of Livermore	\$19.36	\$28.76	\$53.34	\$86.21	\$116.72	\$364.16	\$350.16	\$1,115.62	
City of Newark	\$24.93	\$27.72	\$49.09	\$70.44	\$112.31	\$350.41	\$297.13	\$810.32	
City of Oakland ¹	\$32.10	\$36.82	\$67.19	\$102.43	\$194.10	\$582.30	\$462.27	\$1,386.81	
City of Piedmont	\$49.45	\$51.88	\$60.57	\$70.97	\$162.69	\$458.61	NA	NA	
City of Pleasanton	N/A	\$33.80	N/A	\$41.43	\$205.95	\$467.86	\$467.86	\$1,253.58	
City of Union City	\$36.75	\$42.95	\$73.99	\$104.99	\$128.16	\$353.98	\$335.85	\$915.30	
Castro Valley Sanitary District	\$23.80	\$36.92	\$64.11	\$91.33	\$261.83	\$785.60	\$696.78	\$1,952.78	

Note: Oro Loma Sanitary District is not included in the survey; Oro Loma customers receive bi-weekly recycling service, while all other jurisdictions represented above receive weekly service.
¹ The City of Oakland rates are effective 7/1/2015

LETTER OF UNDERSTANDING

This Letter of Understanding (the "LOU") is made by and between the International Longshore and Warehouse Union, Local 6 (the "Union"), and Alameda County Industries, LLC, a California limited liability company ("ACI"). ACI and the Union are currently in the process of negotiating an initial collective bargaining agreement (the "CBA") on wages, hours and other terms and conditions of employment, covering Local 6 bargaining unit workers employed by ACI at the materials recovery facility located at 610 Aladdin Avenue in San Leandro, California (the "MRF").

ACI and the Union have reached a tentative agreement ("TA") on wages and benefits for the Local 6 bargaining unit as part of their negotiations for an initial CBA. The terms of the TA are as follows:

1. ACI and the Union have tentatively agreed to the wages and benefits set forth in Attachment A to this LOU.
2. ACI and the Union agree that the TA is contingent upon approval by the cities that are major users of the MRF (Alameda, Livermore and San Leandro) of adequate rate increases for the franchised waste hauler of these cities that will enable such hauler to pay processing fees at the MRF that are sufficient in amount to cover ACI's operating costs at the MRF, including ACI's costs under the CBA.
3. ACI and the Union agree that the determination of whether approved rate increases are sufficient in amount for purposes of incorporating the tentatively agreed-upon wages and benefits set forth in Attachment A into a final CBA shall be made by ACI in its sole discretion.
4. ACI and the Union agree that if any of the rate increases prove to be insufficient to support the agreement memorialized in Attachment A then the parties will continue bargaining in good faith towards a mutually acceptable initial collective bargaining agreement.

This LOU expresses the mutual intent of ACI and the Union with respect to wages and benefits.

THE UNION

By: *David Peters*

Title: *Secretary/Treasurer*
4/2/15

ACI

By: *[Signature]*

Title: *managing partner*
4/2/15

Attachment A

Letter of Understanding between ILWU and ACI

	July 1, 2015	July 1, 2016	July 1, 2017	July 1, 2018	July 1, 2019
Classification	Wages - Hourly Rate				
Recycling Sorter/Material Handler	\$ 15.68	\$ 16.86	\$ 18.12	\$ 19.48	\$ 20.94
Forklift/Baler/Quality Control	\$ 16.03	\$ 17.92	\$ 19.82	\$ 21.71	\$ 23.61
Runner/Utility Operator/Screen Cleaner/Warehouse	\$ 16.03	\$ 17.52	\$ 19.01	\$ 20.51	\$ 22.00
Heavy Equipment Operator/ Floater Operator	\$ 16.03	\$ 18.74	\$ 21.46	\$ 24.17	\$ 26.89
Machinery Utility	\$ 16.50	\$ 19.10	\$ 21.70	\$ 24.29	\$ 28.00

	July 1, 2015	July 1, 2016	July 1, 2017	July 1, 2018	July 1, 2019
Health and Welfare	Employer Payment Monthly Rate - per employee				
ILWU Warehouse Welfare Fund (Trust Fund)	\$ 1,205.00	Actual rate, limited to 12% increase	Actual rate, limited to 12% increase	Actual rate, limited to 12% increase	Actual rate, limited to 12% increase
Annual H&W premium increases limited to the lesser of the actual rate or prior year rate plus 12% cap each plan year.					

	July 1, 2015	July 1, 2016	July 1, 2017	July 1, 2018	July 1, 2019
Pension Plan	Employer Contribution - Hourly Rate				
401K Plan	\$ -	\$ -	\$ 0.40	\$ 0.55	\$ 0.75
Plan starts 7/1/2016 for employee contributions. Employer Contributions start 7/1/2017 and are capped at 2080 hours per employee per year; employer contributions made on straight time hours worked, vacation hours paid, and one (1) straight time hour contribution for each overtime hour worked.					

	July 1, 2015	July 1, 2016	July 1, 2017	July 1, 2018	July 1, 2019
Shift and Job Differentials	Additional Wage - Hourly Rate				
Swing Shift	\$ 0.20	\$ 0.30	\$ 0.40	\$ 0.50	\$ 0.50
Night Shift	\$ 0.50	\$ 0.60	\$ 0.70	\$ 0.80	\$ 0.90
Sorter - Designated for clearing line obstruction	\$ 0.40	\$ 0.50	\$ 0.75	\$ 1.00	\$ 1.25

	Residential Single - Family				Commercial			
Jurisdiction	20-Gal.	30-35 Gal.	60-64 Gal.	90-96 Gal.	1 YD Bin 1X/Week	1YD Bin 3X/Week	3 YD Bin 1X/Week	3 YD Bin 3X/Week
City of Alameda - Current	\$28.46	\$35.92	\$59.02	\$82.42	\$136.82	\$418.66	\$410.47	\$1,256.00
City of Alameda - Option #1 - 2.80%	\$29.26	\$36.93	\$60.67	\$84.73	\$140.65	\$430.38	\$421.96	\$1,291.17
City of Alameda - Option #3 - 7.70%	\$30.65	\$38.69	\$63.56	\$88.77	\$147.36	\$450.90	\$442.08	\$1,352.71
City of Albany	\$35.92	\$40.23	\$69.53	\$98.82	\$160.30	\$480.90	\$480.90	\$1,442.70
City of Berkeley	\$23.10	\$36.93	\$73.83	\$110.71	\$147.00	\$414.21	\$406.85	\$1,208.45
City of Dublin	N/A	\$21.10	\$38.75	\$56.40	\$102.35	\$357.99	\$307.05	\$972.09
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City of Fremont	\$29.89	\$30.51	\$33.39	\$48.93	\$86.95	\$250.10	\$195.45	\$575.58
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City of Newark	\$24.93	\$27.72	\$49.09	\$70.44	\$112.31	\$350.41	\$297.13	\$810.32
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City of Piedmont	\$49.45	\$51.88	\$60.57	\$70.97	\$162.69	\$458.61	NA	NA
City of Pleasanton	N/A	\$33.80	N/A	\$41.43	\$205.95	\$467.86	\$467.86	\$1,253.58
City of San Leandro ²	\$21.06	\$26.23	\$43.66	\$61.07	\$115.01	\$347.71	\$347.71	\$1,043.12
City of Union City	\$36.75	\$42.95	\$73.99	\$104.99	\$128.16	\$353.98	\$335.85	\$915.30
Castro Valley Sanitary District	\$23.80	\$36.92	\$64.11	\$91.33	\$261.83	\$785.60	\$696.78	\$1,952.78

Note: Oro Loma Sanitary District is not included in the survey; Oro Loma customers receive bi-weekly recycling service, while all other jurisdictions represented above receive weekly service.

¹ The City of Oakland rates are effective 7/1/2015

² Rates are before 7/1/2015 CPI and MRF labor adjustments



City of San Leandro

Meeting Date: May 18, 2015

Resolution - Council

File Number: 15-278

Agenda Section: ACTION ITEMS

Agenda Number:

TO: City Council

FROM: Chris Zapata
City Manager

BY: Debbie Pollart
Public Works Director

FINANCE REVIEW: Not Applicable

TITLE: RESOLUTION Authorizing the City Manager to Execute the 12th Amendment to the Franchise Agreement Between the City of San Leandro and Alameda County Industries, Inc.

WHEREAS, the City of San Leandro ("City") and Alameda County Industries, Inc. ("ACI"), executed that certain Franchise Agreement for Solid Waste, Recyclables, and Green Waste Services, dated February 1, 2000 ("Franchise Agreement"); and

WHEREAS, the Franchise Agreement has been amended by the City and ACI from time to time; and

WHEREAS, a 12th Amendment to the Franchise Agreement between the City of San Leandro and Alameda County Industries (ACI), Inc., a copy of which is attached, is been presented to this City Council; and

WHEREAS, the City Council is familiar with the contents thereof; and

WHEREAS, the City Manager recommends approval of said agreement;

WHEREAS, pursuant to the letter amendment, ACI will be authorized to implement an 8.49% rate increase for all rates effective August 1, 2015.

NOW, THEREFORE, the City Council of the City of San Leandro does RESOLVE as follows:

That said 12th Amendment is hereby approved and execution by the City Manager is hereby authorized.

May 1, 2015

Mr. Louie Pellegrini
Vice President
Alameda County Industries, Inc.
601 Aladdin Avenue
San Leandro, CA 94577

RE: TWELFTH AMENDMENT TO FRANCHISE AGREEMENT

Dear Mr. Pellegrini:

This letter is the Twelfth Amendment (the "Amendment") to the Franchise Agreement for Solid Waste, Recyclables, and Green Waste Services between the City of San Leandro and Alameda County Industries, Inc., dated February 1, 2000 (the "Agreement"). For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the City of San Leandro and Alameda County Industries, Inc., hereby agree as follows:

1. Effective August 1, 2015, ACI is authorized to implement an 8.49% increase on all rates.
2. The 8.49% rate increase encompasses a 2.05% annual adjustment as provided for in Amendment 10 of the Agreement, a 2.14% increase as provided for in Amendment 11 of the Agreement, and a 4.3% increase as requested under Section 6.4 of the Agreement, entitled Special Rate Review.
3. Except as amended, the Agreement and all of its previously amendments, and unamended terms and provisions shall remain in full force and effect.

Please indicate Alameda County Industries, Inc.'s acceptance of this Amendment by signing and returning to me a copy of the Amendment.

Very truly yours,

Chris Zapata
City Manager

Accepted by Alameda County Industries, Inc.

Louie Pellegrini, Vice President